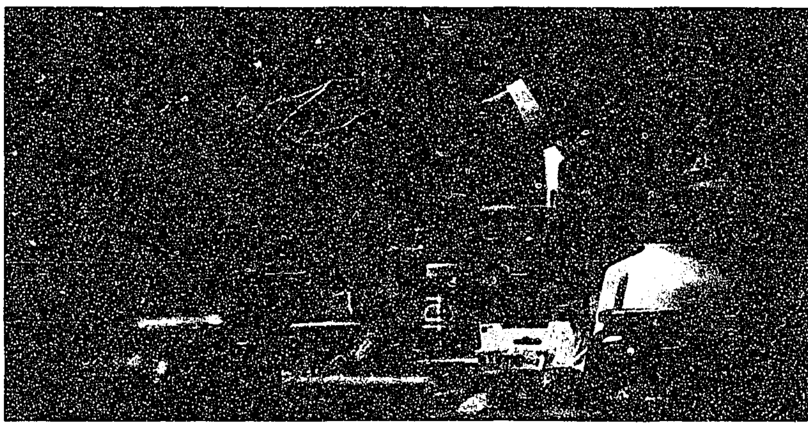
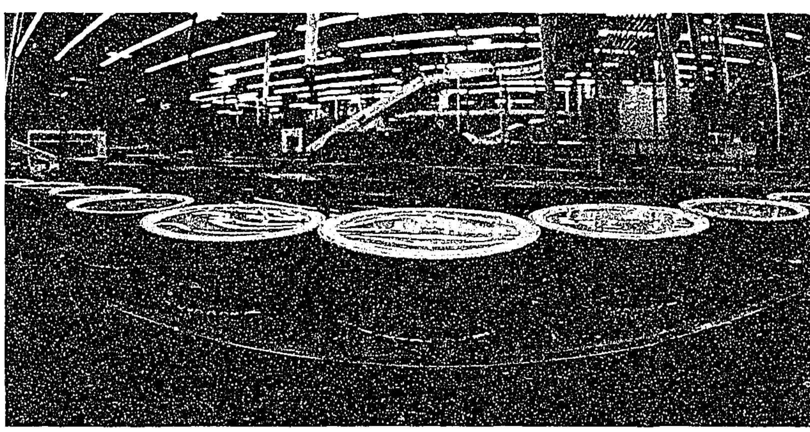
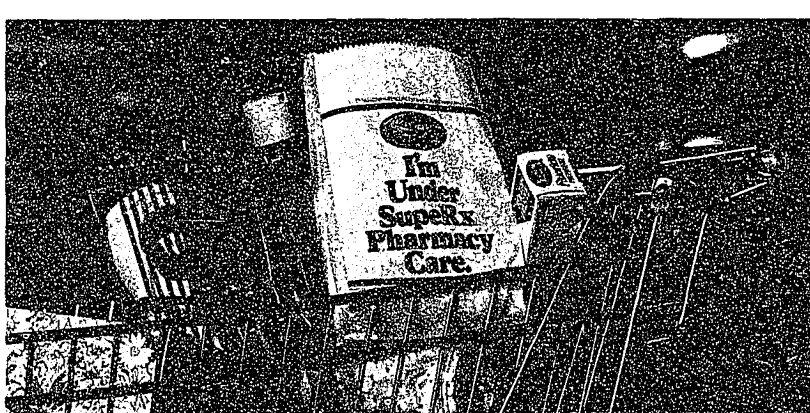
THE KROGER CO. ANNUAL REPORT 1983







1983 FINANCIAL SUMMARY

Sales of The Kroger Co. for 1983 rose 3.2% but net earnings dropped 33.9% and earnings per share were down 31.9% for the year. Sales for 1983 were $15.236 billion, up $474 million from 1982 sales of $14.762 billion.

Net earnings for 1983 were $127.1 million or $2.76 per share, compared to earnings of $192.1 million or $4.05 per share in 1982.

The quarterly dividend was increased from 47¢ to 50¢ per share, effective with the December 1, 1983, payment. This brings the indicated annual dividend to $2.00, and marks the eighth consecutive year of increases in the Kroger dividend.

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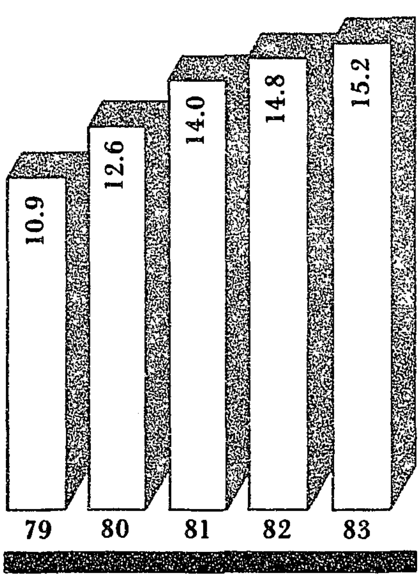
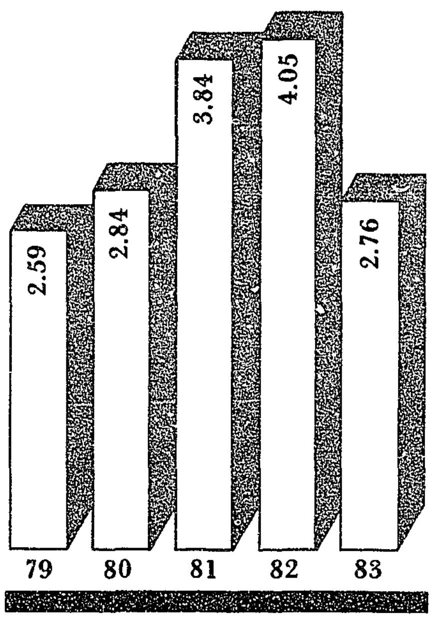
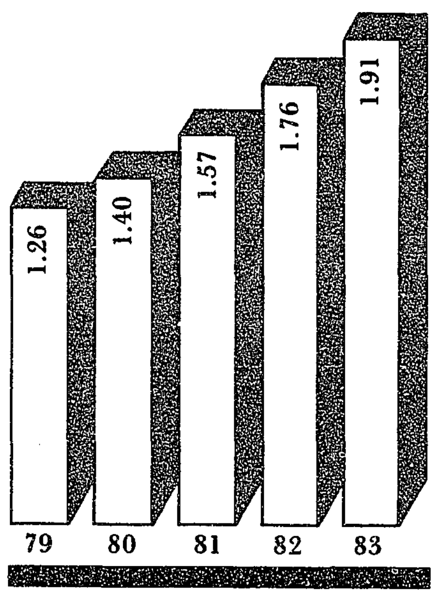
Sales (Billions)



Earnings per Share (Dollars)



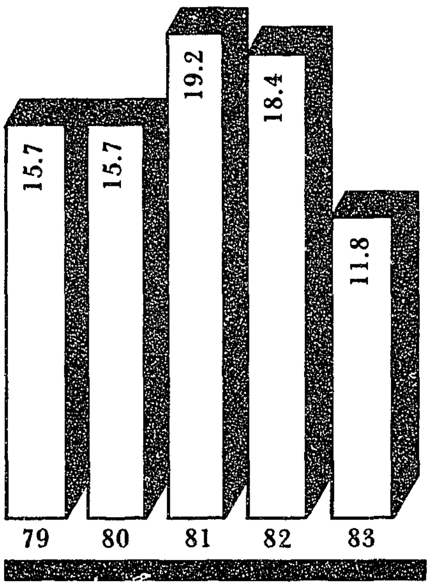
Dividends Per Share of Common Stock (Dollars)



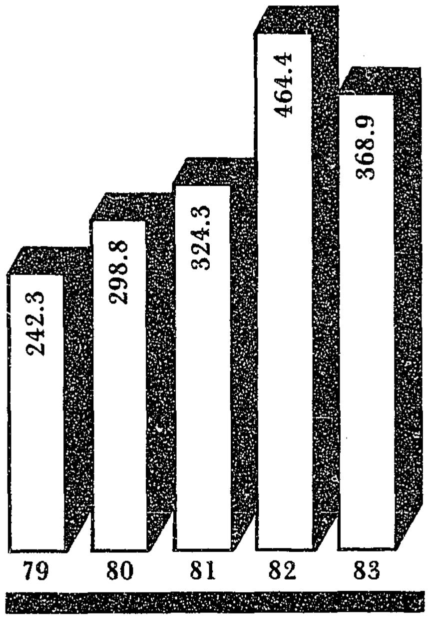
FINANCIAL HIGHLIGHTS

	1983	1982	Change
Sales	**$15.2 billion**	$14.8 billion	+ 3.2%
Net earnings	**$127.1 million**	$192.1 million	−33.9%
Earnings per share:			
Primary	**$2.77**	$4.15	−$1.38
Fully diluted	**$2.76**	$4.05	−$1.29
Dividends paid on common stock	**$85.2 million**	$73.5 million	+15.8%
Per share of common stock	**$1.91**	$1.76	+$ .15
Return on average equity	**11.8%**	18.4%	
Capital expenditures	**$368.9 million**	$464.4 million	−20.6%
Real estate data			
Food stores			
Opened	**81**	112	
Remodeled	**81**	85	
Total area (sq. ft.)	**46.1 million**	44.1 million	
Drug stores			
Opened and acquired	**65**	77	
Remodeled	**8**	25	
Total area (sq. ft.)	**6.8 million**	6.3 million	
Convenience stores			
Opened	**8**	18	
Total area (sq. ft.)	**0.8 million**	0.8 million	

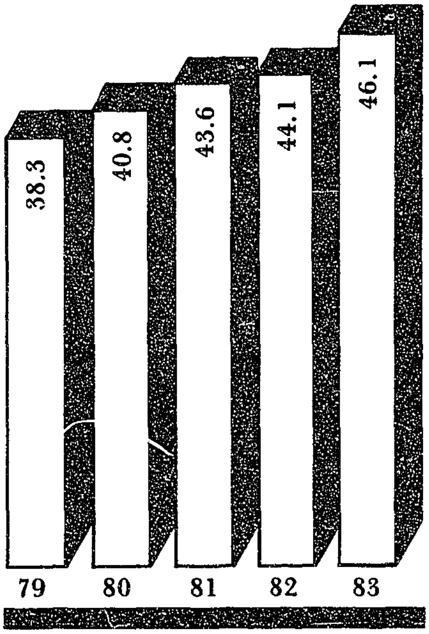
Return on Average Shareowner's Equity (Percent)



Capital Expenditures (Millions)



Food Store Square Footage (Millions)



The year of 1983 was a disappointing one for our company.

Kroger's earnings dropped sharply, to $127 million, from $192 million in 1982. Sales rose 3.2%, to a record $15.2 billion. In an eventful year, we completed our merger with Dillon Companies, Inc. We also marked our 100th anniversary. But our bottom line performance was unsatisfactory—for both you as the owners of our company and us as its managers.

There was no single reason for the earnings decline. In fact, some portions of the company, especially Dillon, produced results that were well ahead of 1982. It is clear, however, that more aggressive competition in important Kroger markets, sluggish economic recovery in large portions of our trade area and higher costs all had a profit-draining effect on our Kroger food store operations.

Frankly, we underestimated the impact of these factors throughout 1983.

Because economic recovery in several important Kroger states was slower than we projected, many of the new stores we had brought on stream over the past three years as part of our aggressive store building program didn't generate the sales we had planned. By the same token, we also overestimated the sales and earnings of our more mature stores, many of which performed below budgeted expectations.

Also, intensified competition in Indianapolis, Detroit and Houston exacted a heavy toll on operating profits. We maintained our market position in these cities, but at a substantial cost.

Finally, Kroger's operating costs rose at a faster rate than sales. With food inflation virtually non-existent in 1983, such important cost factors as store labor and energy expenses and administrative overhead put very strong pressure on the earnings vitality of the company.

We are taking steps to deal with these problems. In the short term, we are implementing company-wide cost containment measures, including administrative staff reductions. We also are pursuing wage and benefit adjustments in contract negotiations with unions representing our employees in order to make Kroger competitive in several major markets.

Longer range, we are evaluating the strategies guiding our retail operations, as well as economic and market developments throughout Kroger's retail territories. Where appropriate, we will not hesitate to redeploy

underproducing assets to markets with better long term potential. Because of the attractive real estate values of many of our properties, we will continue to have the option of profitably withdrawing from poorly performing markets, as we did in Baton Rouge late in the year and Pittsburgh early in 1984.

We also will focus attention on improving the return on major investments made over the past several years. As a result, capital expenditures in 1984 will be reduced to about $275 million.

These kinds of steps will have their greatest impact on operating results further down the road. For the immediate future, we anticipate a continuation of the difficult competitive environment. Our goal is a clear one: to generate improved sales and earnings.

Despite the challenges we face, Kroger still enjoys a strong and enviable position in the food and drug business.

For one, our balance sheet is stronger today than it was a year ago, and our cash flow from operations also is strong. By buying in preferred shares during the year, we also have been able to reduce a portion of the dilution of our stock resulting from the Dillon merger.

For another, we maintain a solid market niche in literally dozens of cities, including the expanding southeastern and southwestern areas of the country. Dillon-operated stores carry on this strength in the markets they serve. Our confidence in Dillon was amply confirmed during 1983, and the growing interaction of Dillon and Kroger holds great promise for even better results in the years ahead.

Kroger Manufacturing is a source of strength. This important division operates modern, technologically advanced food processing facilities, and we fully intend to capitalize upon this asset through increased shipments of high quality Kroger-made products for Kroger Food Stores, Dillon, SupeRx, and a growing number of outside customers.

SupeRx continues to improve its overall performance, particularly as its drug/convenience format is implemented. Its contribution to Kroger's overall operating results should grow.

Lastly, we welcome to the Board of Directors Otis Smith, vice president and former general counsel of General Motors Corp. We look forward to having his broad perspective and valuable insights.

None of us here likes to report the unpleasant news of our 1983 profit performance. Yet we are encouraged about the real strengths of The Kroger Co. There is great motivation in this highly competitive business to do better than our retailing peers. There also is great professional pride among the people who are responsible for the operation of your company.

But even more than those factors, there is pride in Kroger.

We have gone through difficult periods before, and come through as a stronger company. In part, that's because we've always had people who were unwilling to let the Kroger name be associated with anything but the best food retailing has to offer.

It was this constant reaffirmation of pride that brought us to our 100th anniversary. It will carry us again.

Lyle Everingham

Lyle Everingham
Chairman and Chief Executive Officer

William G. Kagler

William G. Kagler
President
March 28, 1984

Kroger began 1983 with expectations that our centennial year would be one of the best in the company's history.

It was not to be.

We achieved record corporate sales and improved performance in several markets, and the results of Dillon Companies, Inc., which became part of Kroger early in the year, were stronger than they had been the year before.

However, intense competition, uneven economic recovery, and troublesome operating costs compelled us to devote much of our attention to protecting the sales and customer base established in prior years.

The Kroger Co. now has operations in 32 states, stretching from the Carolinas to northern California. With our food stores,

KROGER FOOD STORES

The Kroger Co. has operated food stores in the Detroit market since 1917. In 1983, its continued existence there was threatened by a competitive challenge that tells much about Kroger's retailing year.

A major competitor launched a full-scale bid for market share in June by dropping prices, adding in-store service and undertaking a formidable print, television and radio advertising blitz.

The impact on Kroger's 60 area stores was immediate. Sales plummeted as the competitor began drawing away shoppers at just the time the local economy began rebounding.

The story could have ended there. That it did not, that Kroger's Detroit sales now are significantly ahead of previous years' levels, is in large part the result of a measured response engineered by Kroger merchandising executives like the people shown here: (left to right) Vice President-Perishable Merchandising, Wayne Harris; Zone Manager Ellis Tripp; and Michigan Marketing Area Vice President Joel Greenisen.

Kroger's response began in August with a "Compare Anywhere" pricing program, emphasizing competitive prices on a wide range of grocery and health and beauty items, plus a feature program highlighting produce and meat specials. This was followed by rock-bottom prices on such staples as Kroger milk, eggs and bean coffee. Detroit area stores were enlivened with bright displays supporting the program.

It has been a costly fight. The extremely low margins have jeopardized Kroger's ability to generate acceptable earnings in the Detroit market. But what happened in Detroit, and in Indianapolis and Houston in 1983, dramatically illustrates the company's determination to defend its position in the communities it serves in order to maintain a customer base essential to profitable growth.

our manufacturing facilities and the operations of SupeRx Drug Stores, Kroger occupies a significant position in one of the nation's basic industries.

The scope of our operations makes generalizations difficult. But the following factors played major roles in determining our performance during the year:

Competitive Factors

Any company in food retailing expects competition, but perhaps not with the intensity and profit-draining impact Kroger Food Stores experienced in 1983.

In retrospect, the year may have reflected one of the most rapidly changing competitive market environments the company has ever faced. Only a few of our major markets avoided noticeable increases in competi-

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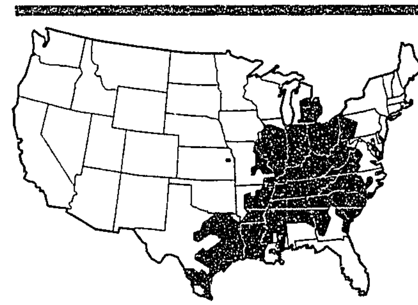

Kroger Food Stores is the company's largest operation, with 1,202 food stores in 19 southern and midwestern states at the end of 1983. More than 90% of Kroger Food Store square footage is in the large superstore or combination store category.

tive activity. In most markets, games, bonuses on manufacturers' coupons and other promotions punctuated merchandising strategies through much of the year as Kroger and competing merchants sought to retain old customers and attract new ones.

In addition to these costly programs, Kroger's bottom-line results were significantly affected by intensified competitive challenges in Houston, Indianapolis and Detroit.

In each city, competitors tried to attract customers away from Kroger by challenging our long-standing "everyday low price" merchandising strategy.

We fought hard to maintain our position in each market (SEE PAGE 4). But these were expensive, prolonged and difficult

DILLON COMPANIES, INC.

The new breed of food stores being developed by the various operating divisions of Dillon Companies ensures a regular flurry of last minute preparations prior to Grand Opening.

Getting a store opening day perfect is a ritual that has been performed many times by this team of veteran managers of Dillon Stores' Kansas Division. Shown standing in a 44,000-square-foot Dillon store that opened on December 7, 1983, in Wichita, KS., are (left to right): Everett Snowbarger, Chairman of the Executive Committee, Dillon Stores-Kansas Division; Don Gallegos, Vice President, Dillon Companies, Inc.; John Baldwin, President, Dillon Stores-Kansas Division; and Al Wagler, Executive Vice President-Retail Operations and Construction, Dillon Stores-Kansas Division.

With a population of 280,000 and a solid economic base in private and military aircraft manufacturing, Wichita is a key market for Dillon. Its Kansas division operates 14 food stores within the city, in addition to 43 stores across the rest of the state.

This store was the second new facility Dillon opened in Wichita in 1983. In May, the company opened a 52,000-square-foot combination store that is the largest supermarket in Wichita and the largest Dillon store ever built in Kansas.

Like the stores developed by the other Dillon divisions —including King Soopers and City Market in Colorado, Dillon Stores -Springfield Division, Fry's in Arizona and California— the new Wichita store includes a variety of specialty departments, such as a seafood shop, a floral shop, a service deli, a health foods and nutrition center and a pharmacy.

fights—and this activity continues in some markets in 1984.

Economic Factors

As it affected Kroger, the national economic recovery was a regional phenomenon. Some areas served by our stores rebounded strongly as people returned to work and business confidence was restored. Our performance also was markedly better in robust markets like Atlanta and Dallas, as were results in the expanding trade areas served by the various Dillon operating divisions.

In other areas, however, there were few jobs and little economic rejuvenation. The average rate of unemployment in many Kroger states, for example, decreased only slightly from the double-digit levels of 1982 to year-end

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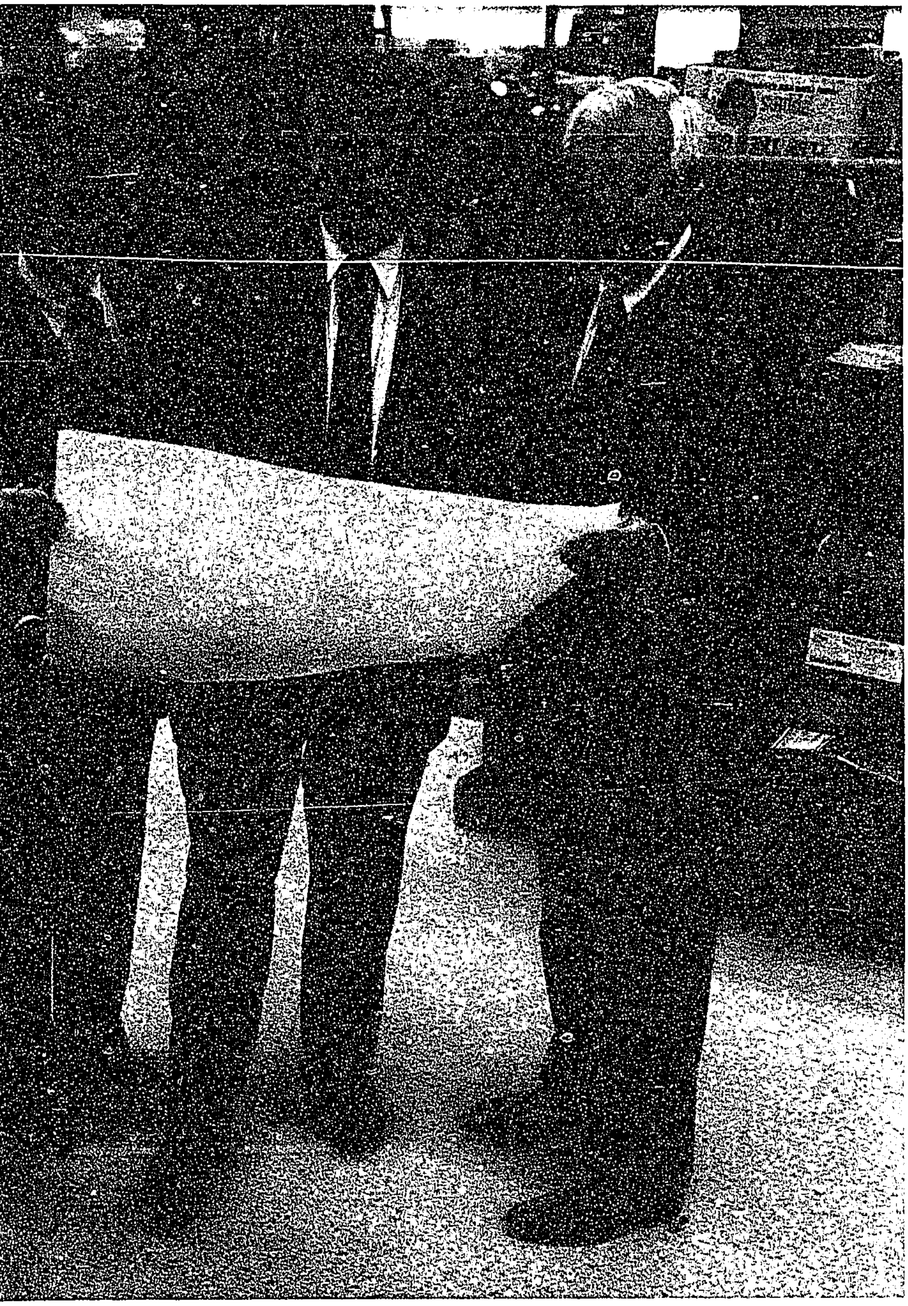
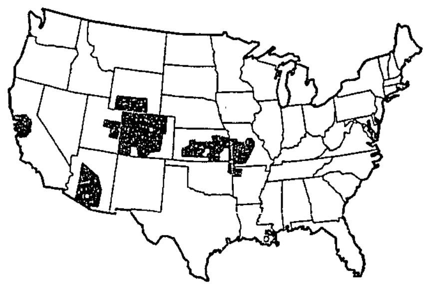




FOOD STORES
CONVENIENCE STORES
MANUFACTURING

Dillon Companies, Inc., of Hutchison, KS, operates 226 supermarkets, 352 convenience stores and 14 small, family apparel stores. Stores are located primarily west of the Mississippi. Dillon operates supermarkets under the names of King Soopers, Dillons Food Stores, Fry's Food Stores, City Market, Gerbes Supermarkets, and Sav-Mor. More than half the supermarkets come in the large combination store category. Dillon's convenience stores, under the names of Kwik Shop, Quik Stop Markets, and Time Saver Stores, are located in northern California, Kansas, Nebraska, Iowa and the New Orleans metropolitan area.

1983. Even in hard-hit markets like Michigan and Ohio, where higher auto production brought many people back into the workplace, overall employment is—and will remain for some time—substantially below what it was in the peak production years of the late 1970's.

The sluggish nature of the economic recovery also slowed our ability to improve our return on assets. Kroger's aggressive store building program between 1980 and 1983 was undertaken to capitalize upon anticipated economic growth by ensuring that we were offering customers the most modern and appealing food stores in the business. It was accompanied by an expansion and modernization of our food processing facilities in support of our food stores.

KROGER MANUFACTURING

The investment of substantial amounts of capital for new facilities is an ongoing necessity within The Kroger Co. In making capital commitments, the company imposes a short-term burden on earnings. But this is an unavoidable risk to ensure longer term production and distribution efficiencies and, hence, profitability.

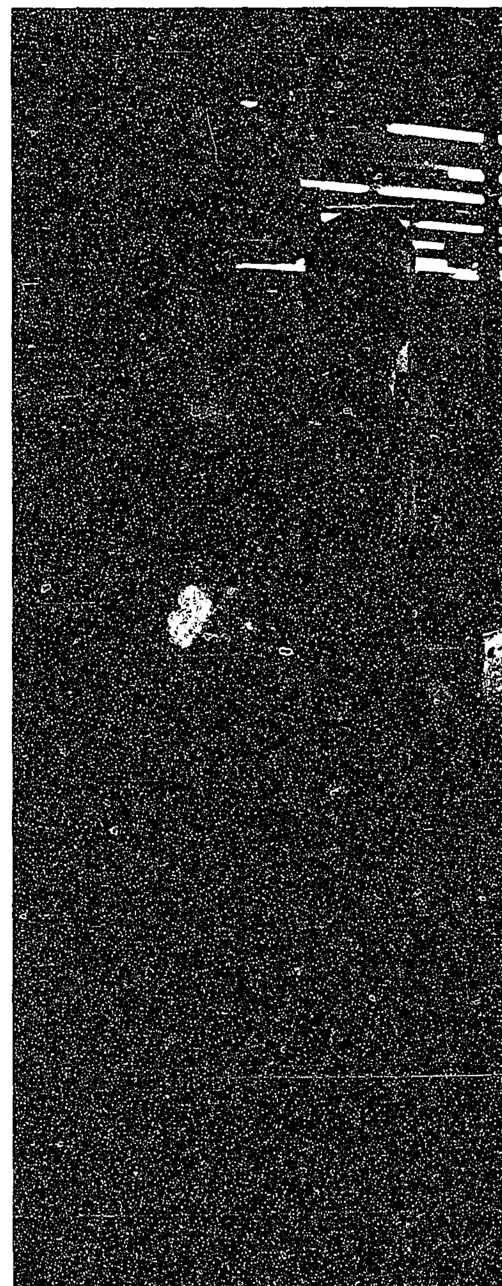
Over the past three years, Kroger has invested more than $126 million in new manufacturing facilities alone, including a dairy, a bakery, a sugar-based products plant and a second cheese processing facility. In total, the company now operates 42 food processing facilities.

One of the most recent of these to come onstream is Kroger Manufacturing's imported products plant in Pontiac, S.C. This $24 million, highly sophisticated facility makes and distributes Kroger-label items containing imported ingredients. It currently employs 175 people.

The heart of the Pontiac Foods plant is coffee making. Each year, Kroger shoppers purchase more than 28 million pounds of Kroger coffee, which is equal to about 1.5 billion cups. To meet this demand, the company imports 15,800 tons of coffee beans every year.

Kroger's coffee manufacturing is state-of-the-art. Computer controlled equipment processes Kroger's blend of imported coffee beans from Colombia, Mexico, Brazil and other nations. Every day, more than 41,500 cans of Kroger-label coffee are vacuum-packed for rapid shipment to Kroger food stores.

Making sure this flow of product runs uninterrupted is the responsibility of many people, three of whom are shown here standing on the floor of the coffee processing center. They are, left to right, Quality Control Manager Bill Frank, Pontiac Foods Manager Frank Ritchie, and George Laughlin, Vice President-Grocery Products Manufacturing. Together, these three men have more than 50 years experience in food processing.



It was a risk that paid handsome dividends in growing markets like Atlanta, and it has given the company a substantial real estate portfolio of attractive store properties. But where economic conditions did not improve or were stagnant, anticipated sales in many of the new stores simply didn't materialize. Even in many of our more mature stores, sales and profits fell short of budgeted projections, especially in the first half. Sales of Kroger manufactured product also fell below the levels planned.

Kroger will continue to build and to modernize, but our obvious challenge is to improve the results of these existing facilities. As part of that process, we will continue to pursue a cor-

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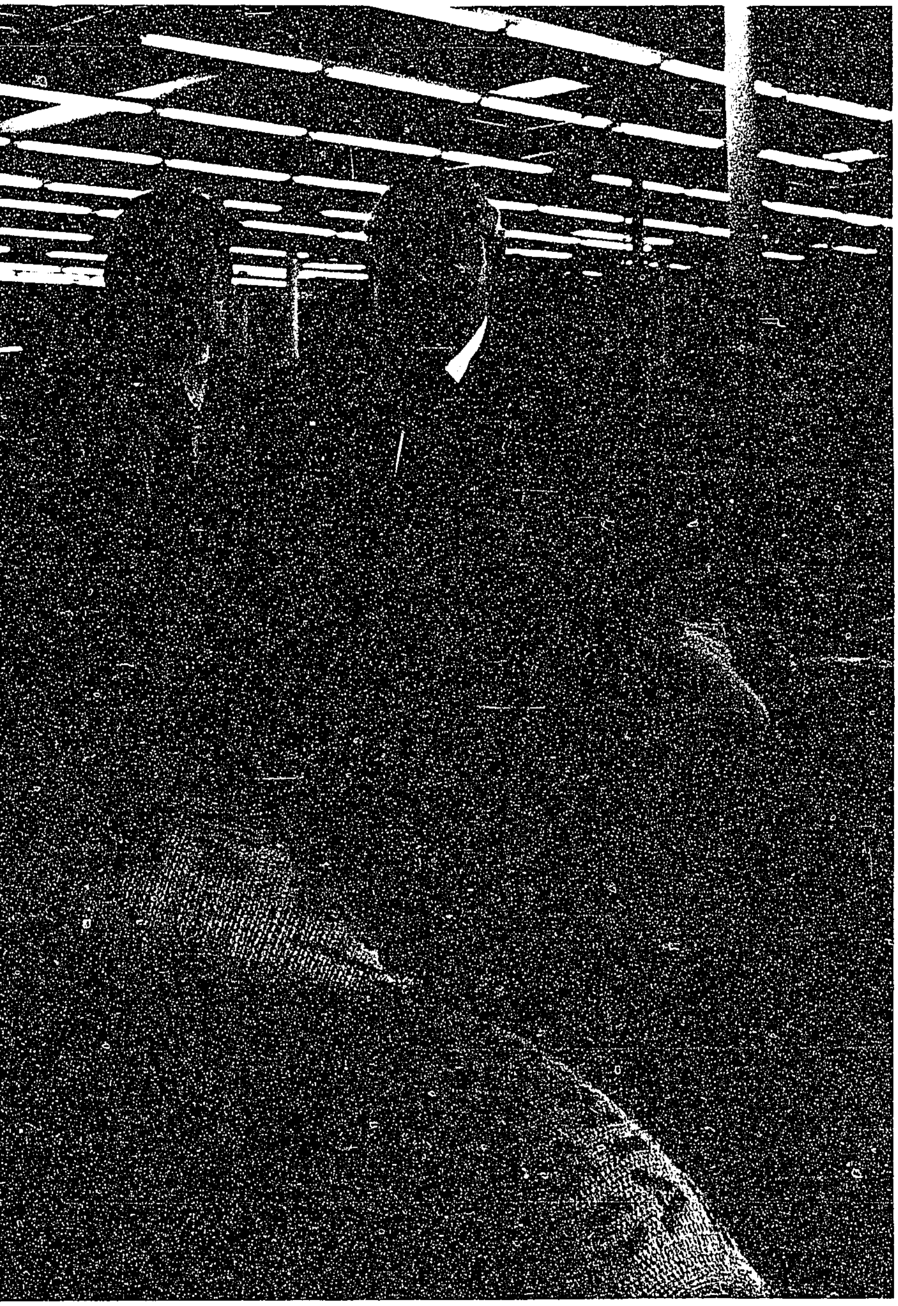

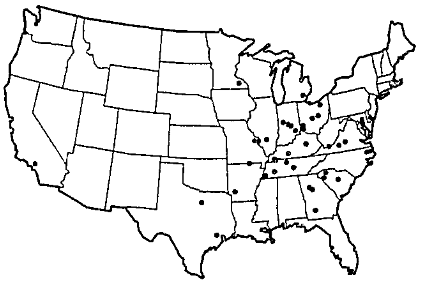

Kroger processes many food products sold in its stores, a tradition that began before the turn of the century. The company operates 42 food processing plants, primarily serving the food stores. Included are 12 bakeries and 12 dairies, in addition to plants processing cheese, eggs, peanut butter, pet foods, delicatessen items, coffee, pharmaceuticals, film processing, ice, carbonated beverages and snack foods, as well as a trout farm and a general processing plant where such products as preserves, salad dressings and other items are processed. A new research and development center opened in 1983 adjacent to Northern Kentucky University.

porate goal expressed in previous annual reports: a constant evaluation of the productivity of existing assets and, when the situation demands it, a redeployment of those assets in order to improve our overall strength.

In terms of capital expenditures for 1984, we anticipate spending approximately $275 million, most of which will go for approximately 45 new Kroger Food Stores, averaging about 45,000-square-feet each, and about 50 store remodels. SupeRx anticipates opening approximately 21 new facilities, and Dillon's various operating divisions expect to open seven new combination stores, eight remodels, and 28 new convenience stores.

No matter how many stores Kroger builds, however, we are

SUPERX DRUG STORES

No matter how much the appearance and merchandise offering of America's drug stores have changed through the years, one feature has never varied: meeting health care needs readily and conveniently.

During 1983, SupeRx re-affirmed this central concept throughout its stores. The anchor of each is the in-store pharmacy where, in 1983, more than 23 million prescriptions were filled. Additionally, SupeRx Drug Stores offered customers a complete line of health and beauty aid products, cosmetics, non-prescription drugs, photo processing and a host of other products and services.

At the same time, SupeRx began testing on a limited basis during the year a drug/convenience store format. The idea is a simple one: a person who runs into a SupeRx Drug Store to pick up a prescription or a tube of toothpaste may also need a few other items—in a hurry. So a small store—about 10,000 square feet on average—containing a limited assortment of food items, in addition to the typical drug and pharmacy offerings, could meet the immediate needs of many additional shoppers.

It is an idea that will be examined carefully and given sufficient time to develop consumer appeal. It is designed to complement SupeRx's primary health care mission.

To do this well—test a new concept, on the one hand, while also improving upon the basics—requires skillful management teamwork. In Cincinnati, where the company operates 45 drug stores, one such management team is shown in a familiar SupeRx setting. Store Manager Kit Mitchell, center, is flanked by Chuck Milton, District Manager, left, and Ron Baumgarth, Northeast Region Vice President, right.

convinced that each store we operate, old or new, must precisely meet the needs and preferences of the trade area it serves.

As the 1980s unfold, it is becoming increasingly apparent that there is no such thing as the "typical" food store shopper. Age, income level, ethnic diversity and life styles are just some of the variables retailers must address in their merchandising plans. In this evolving environment, it is impossible to define a "typical" food store. Those operated by Kroger, we believe, offer both the convenience and variety all shoppers want. But in addition, we are tailoring our stores to "fit" the demographic area from which they hope to draw customers. We are using sophisticated customer research

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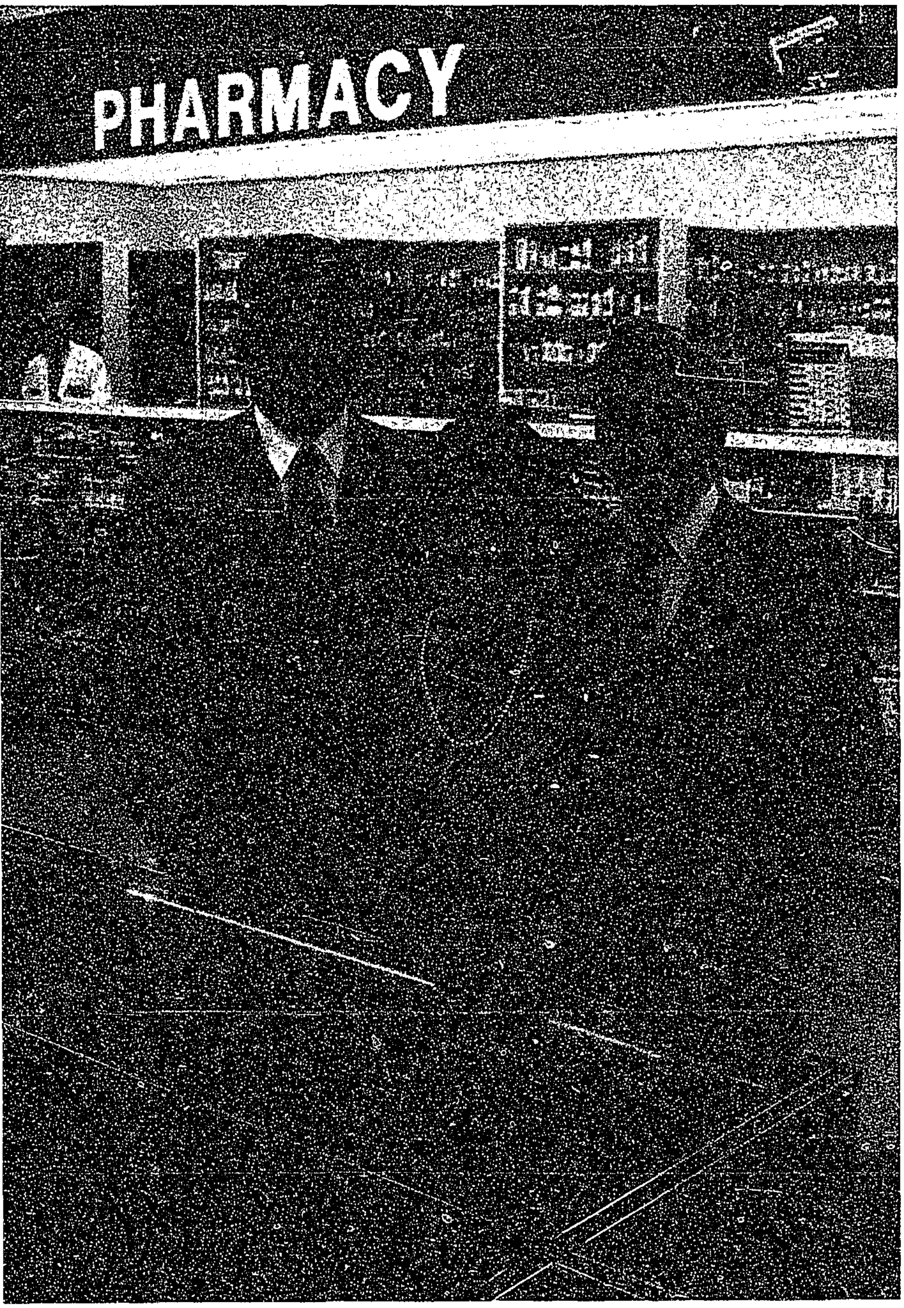

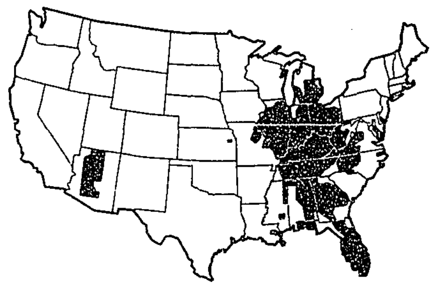

SupeRx operated 606 stores in 20 states at the end of 1983. Although SupeRx operates a majority of its drug stores in states where Kroger Food Stores are located, drug stores also are located in Arizona, Connecticut, Florida, New Jersey and New York. Also included in the above total are 19 SupeRx Food and Drug Stores in Florida.

to ensure that each of our stores contains just the right mix of grocery, specialty shop and perishable selections best suited to respond to the needs and tastes of the shoppers who use that store.

Operating Costs

During 1983, Kroger's sales gains did not keep pace with rising operating costs. We had envisioned a low rate of food inflation going into the year, and thus had planned for the necessity of significant increases in volume to build sales. But in doing so, expenses we incurred to boost volume and, as the year progressed, to meet intensified competition, grew faster than our ability to generate sales.

Modest rates of inflation are again predicted for 1984. Whatever the direction of prices, we have implemented a number of actions to put costs better in line. These are directed at improving the return on our assets and at reducing those expenses that stymie our ability to operate food stores at a satisfactory profit.

Of these, labor costs—our single most substantial expense—continue to be a major concern. Kroger's primary objective in labor negotiations has been to obtain contracts enabling the company to be competitive with other retailers in the local market. Kroger has thousands of dedicated and loyal employees, and we consistently have paid them attractive, competitive wages.

Whenever our labor costs have resulted in a disparity with those of our retailing competitors in a given market, however, we have candidly outlined to employees the impact of this differential on our ability to stay competitive. In many instances, our employees have responded and true progress has been achieved. But in a number of markets, negotiations to reach a reasonable level of parity in labor costs have failed. In those instances, or when progress toward acceptable contracts appears unlikely, Kroger must act, as it did in withdrawing from the Lafayette, IN, Champaign, IL and Baton Rouge, LA, markets in 1983, and our Pittsburgh area stores in early 1984.

Our withdrawal from the Pittsburgh market touches upon another key corporate development that occurred early in 1984: Kroger's initial move into wholesaling to augment our retail operations.

In mid-February, we entered negotiations to sell our 45 Pittsburgh Kroger stores to Wetterau, Inc., one of the nation's largest wholesalers. The companies also said they had established a joint study team to explore wholesaling opportunities. This project is now under way.

Corporate Responsibility

Because of our 100th anniversary in 1983, Kroger's traditional involvement in the civic and cultural life of the markets we serve took on an added luster. Contributions to non-profit charitable organizations totaled $1,690,000, of which more than half was earmarked for United Way campaigns in the several hundred cities in which we operate.

Other contributions benefited a variety of health and welfare, educational and civic projects, ranging from monetary and product support for charitable food banks to free concerts marking the company's centennial celebration.

In addition to the formal contributions program, various operating units of the company donated more than $900,000 in support of a variety of community activities. The total of all our charitable activities during the year was $2,590,000, representing 1.22% of our pre-tax earnings.

Finally, Kroger and the National Association for the Advancement of Colored People (NAACP) signed a precedent-setting statement of cooperation in July, pledging cooperation to expand employment and economic opportunities for blacks and other minorities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The analysis of Company operations encompassing the years 1981, 1982 and 1983 should be considered in conjunction with the Consolidated Financial Statements and the Ten Year Summary.

Liquidity and Capital Resources

Capital expenditures in 1983 totaled $368.9 million, a decrease of $95.5 million from 1982 but an increase of $44.6 million over 1981. In 1984, capital expenditures will be approximately $275 million. Storing plans for 1984 include approximately 52 food stores, 28 convenience stores, and 12 drug stores.

Summary of Retail Expansion

	1983	1982	1981
Food Stores:			
Opened	81	112	116
Remodeled	81	85	57
Closed or Sold	71	169	101
Stores—End of Year	1,428	1,418	1,475
Total Area*	46,077	44,088	43,615
Drug Stores:			
Opened or Acquired	65	77	57
Remodeled	8	25	15
Closed or Sold	22	21	64
Stores—End of Year	606	563	507
Total Area*	6,832	6,261	5,715
Convenience Stores:			
Opened	8	18	27
Closed or Sold	8	15	11
Stores—End of Year	352	352	349
Total Area*	809	807	800

*In thousands of square feet.

Cash provided from current operations over the past three years has met $1,062.7 million of the $1,387.9 million required for capital expenditures and dividends. Financing arrangements during 1983 included the issuance of $50 million in two-year extendible notes and $72.2 million in industrial revenue bonds. The Company continues to generate cash from the disposition of underproductive assets. Cash was used during the year to reduce long-term debt and obligations under capital leases in the amount of $99.3 million and to reacquire its convertible preferred stock for $61.3 million.

There were no short-term borrowings to be refinanced at the end of 1983, compared to $75.8 million at the end of 1982. Short-term borrowings averaged $82.9 million during 1983 compared to $40.4 million during 1982. Cash and temporary cash investments decreased by $63.6 million to $114.6 million at December 31, 1983.

At December 31, 1983, the Company had available a revolving credit aggregating $250 million against which it may obtain interim loans until March, 1989. At the Company's request, the interim loans may be converted into term loans payable over six years. In addition, at the end of 1983, the Company had commitments for the financing of real estate and equipment totaling $66.9 million.

Working capital at December 31, 1983, was $339.7 million compared to $368.3 million at January 1, 1983, and $405.1 million at January 2, 1982. The current ratio was 1.26 to 1 compared to 1.30 to 1 at January 1, 1983, and 1.37 to 1 at January 2, 1982. The LIFO inventory reserve at December 31, 1983 was $187.8 million compared to $165.3 million at January 1, 1983, and $143.1 million at January 2, 1982.

Long-term debt and capitalized lease obligations have increased moderately as a percent of long-term capitalization (Long-Term Debt + Capitalized Lease Obligations + Shareowners' Equity). The pre-tax earnings coverage of interest and rents declined to 1.71 times in 1983.

	Percent Of Long-Term Capitalization		
	1983	1982	1981
Short-Term Borrowings to be Refinanced		4.0%	
Senior Debt	34.1%	28.0	25.7%
Subordinated Debt			3.0
Capitalized Lease Obligations	10.9	10.3	11.3
Total	45.0%	42.3%	40.0%
Pre-Tax Coverage of Interest and Rent (times)	1.71	2.11	2.28

Results of Operations

Consolidated sales were $15.2 billion in 1983, an increase of 3.2% over 1982. The increase would have been 5.8% if sales of the 65 southern California stores, disposed of in 1982, are excluded from both years. The sales trend results were stronger at the end of the year, with the sales increase for the Fourth Quarter ended December 31, 1983 at 7.5% over 1982.

Consolidated Sales (in millions)

	1983		1982		1981	
	Amt.	Chg.	Amt.	Chg.	Amt.	Chg.
Food Stores	$13,931	+ 2.6%	$13,574	+ 5.5%	$12,861	+10.6%
Drug Stores	789	+10.2%	716	+ 6.9%	670	+ 5.5%
Convenience Stores	260	+ 3.2%	252	+ 0.8%	250	+25.5%
Other	256	+16.4%	220	+24.3%	177	+12.9%
Total	$15,236	+ 3.2%	$14,762	+ 5.8%	$13,958	+10.6%

Factors influencing food store sales in 1983 versus 1982 included an increase in prices of 2.9% and an increase in tonnage of 1.9% while total square footage increased 4.5%.

Factors influencing drug store sales included a 6.5% increase in prices as well as a 9.1% increase in square footage. Identical store sales increased 4.7%.

Merchandise costs, including warehousing and transportation, continued a downward trend to 76.5% of sales from 76.8% in 1982 and 77.4% in 1981. Approximately 75% of 1983 inventories and 74% of 1982 inventories were valued using the LIFO method. The LIFO charge to inventories was $22.5 million in 1983 compared to $22.3 million in 1982 and $38.2 million in 1981.

Operating, general and administrative expenses continued to increase on a percent of sales basis from 18.3% in 1981 and 18.6% in 1982 to 19.1% in 1983. The dollar increase was 5.9% from 1982 to 1983 and 7.6% from 1981 to 1982. Major factors causing the increase were higher employee costs, which were up 7.5% over 1982, and utility costs, which increased 7.8% over 1982.

Operating profit for the Company's SupeRx drug stores and Dillon operations was ahead of the previous year. Kroger Food Stores' operating profit continued to be adversely affected by aggressive price competition in several major markets.

Net Earnings

Earnings from continuing operations in 1983 were $127.1 million compared to $192.1 million in 1982 and $177.3 million in 1981. The earnings comparison to 1982 is impacted by a gain of $14.2 million recognized in 1982 from the Company's store closing program. Net earnings in 1983 were influenced by an increase in the effective tax rate from 34.0% in 1982 to 40.0% in 1983 due to lower investment tax credits and the absence of capital gains which had favorably impacted the 1982 results. The Company's reported sales, earnings, shareowners' equity and other pertinent financial data have been affected by inflation in recent years. An estimation and evaluation of the effect of inflation, as defined by Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices, follows on page 26.

Management's Responsibility for Financial Reporting

The consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies and other financial information contained in this report were prepared by management, which is responsible for their integrity and completeness. These statements were prepared in conformity with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

The Company has, over the years, maintained a system of internal accounting controls to provide reasonable assurance that Company assets are adequately protected, and that transactions are executed in accordance with management's authorizations and are reflected accurately in the Company's books and records as a basis for the reliable preparation of the financial statements. The system of controls includes careful selection and training of financial management personnel, clearly defined limits of authority and division of responsibility, the dissemination of detailed formal accounting and business policies and procedures, and an extensive program of internal audit examinations to monitor the effectiveness of the system. The Company has distributed to key employees its policy requiring high moral, ethical and legal standards in the conduct of its business.

Coopers & Lybrand, independent certified public accountants, has examined the consolidated financial statements in accordance with generally accepted auditing standards. Their report on the consolidated financial statements appears on page 26.

The Board of Directors, acting through its Audit Committee comprised entirely of outside directors, oversees the fulfillment by management of its responsibilities in the preparation of financial statements and for financial control. The Committee recommends the selection of the Company's certified public accountants, reviews the scope and cost of the internal and external audit programs and meets formally at least three times per year with the internal and external auditors, providing them direct free access at these and other times.

CONSOLIDATED BALANCE SHEET
(In thousands of dollars)

	December 31, 1983	January 1, 1983
ASSETS		
Current assets		
Cash and temporary cash investments	$ 114,571	$ 178,156
Receivables	156,359	124,688
Inventories:		
FIFO cost	1,338,939	1,274,088
Less LIFO reserve	(187,808)	(165,302)
	1,151,131	1,108,786
Property held for resale	105,075	70,333
Prepaid and other current assets	110,188	96,772
Total current assets	1,637,324	1,578,735
Notes receivable	34,927	35,494
Property, plant and equipment		
Land	97,662	82,055
Buildings and land improvements	387,588	336,113
Equipment	1,469,541	1,354,607
Leaseholds and leasehold improvements	433,993	366,351
Leased property under capital leases	269,489	247,454
	2,658,273	2,386,580
Allowance for depreciation and amortization	(888,934)	(775,887)
Property, plant and equipment, net	1,769,339	1,610,693
Investments and other assets	60,688	68,739
Total Assets	$3,502,278	$3,293,661

The accompanying notes are an integral part of the consolidated financial statements.

	December 31, 1983	January 1, 1983
LIABILITIES		
Current liabilities		
Current portion of long-term debt	$ 6,084	$ 42,674
Current portion of obligations under capital leases	6,057	5,805
Accounts payable	814,620	762,746
Other current liabilities	418,600	379,389
Accrued income taxes	52,262	19,855
Total current liabilities	1,297,623	1,210,469
Long-term debt	665,386	604,007
Obligations under capital leases	212,406	194,195
Deferred income taxes	232,201	176,835
Employees' benefit fund	21,810	21,810
Total Liabilities	2,429,426	2,207,316
SHAREOWNERS' EQUITY		
Convertible preferred capital stock		50,000
Common capital stock, par $1, at stated value Issued: 1983—47,392,143 shares 1982—47,134,665 shares	357,408	350,628
Accumulated earnings	820,944	792,641
Common stock in treasury, at cost 1983—2,647,451 shares 1982—2,635,824 shares	(99,203)	(98,749)
Net unrealized loss on marketable equity securities	(6,297)	(8,175)
Total Shareowners' Equity	1,072,852	1,086,345
Total Liabilities and Shareowners' Equity	$3,502,278	$3,293,661

CONSOLIDATED STATEMENT OF EARNINGS AND ACCUMULATED EARNINGS

Years Ended December 31, 1983, January 1, 1983 and January 2, 1982
(In thousands of dollars, except per share amounts)

	1983 (52 Weeks)	1982 (52 Weeks)	1981 (52 Weeks)
Sales	**$15,236,013**	$14,761,764	$13,957,555
Costs and expenses:			
Merchandise costs, including warehousing and transportation	**11,656,585**	11,343,284	10,802,076
Operating, general and administrative	**2,907,339**	2,744,998	2,551,097
Rent	**208,394**	192,114	163,779
Depreciation and amortization	**179,660**	152,052	130,689
Dividend and interest income	**(18,231)**	(31,723)	(26,277)
Interest expense	**90,297**	69,819	55,583
Total	**15,024,044**	14,470,544	13,676,947
Earnings from continuing operations before taxes based on income	**211,969**	291,220	280,608
Taxes based on income	**84,890**	99,096	103,299
Earnings from continuing operations	**127,079**	192,124	177,309
Loss from discontinued operations			(1,439)
Net earnings	**$ 127,079**	$ 192,124	$ 175,870
Accumulated earnings:			
Beginning of year	**$ 792,641**	$ 701,994	$ 616,311
Net earnings	**127,079**	192,124	175,870
Cash dividends on common stock	**(85,188)**	(73,549)	(63,898)
Cash dividends on preferred stock	**(2,250)**	(4,500)	(963)
Reacquisition of preferred stock	**(11,338)**		
Stock dividends (Dillon)		(23,428)	(25,326)
End of year	**$ 820,944**	$ 792,641	$ 701,994
Earnings per share:			
Primary:			
From continuing operations	**$2.77**	$4.15	$3.95
Net earnings	**$2.77**	$4.15	$3.91
Fully diluted:			
From continuing operations	**$2.76**	$4.05	$3.87
Net earnings	**$2.76**	$4.05	$3.84
Cash dividends per common share	**$1.91**	$1.76	$1.57

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1983, January 1, 1983 and January 2, 1982
(In thousands of dollars)

	1983 (52 Weeks)	1982 (52 Weeks)	1981 (52 Weeks)
Cash Provided (Used) From Operations:			
Net earnings	**$ 127,079**	$ 192,124	$ 175,870
Loss from discontinued operations			1,439
Earnings from continuing operations	**127,079**	192,124	177,309
Charges not involving cash:			
Depreciation and amortization	**179,660**	152,052	130,689
Provision for deferred income taxes	**55,366**	19,771	27,873
Write-off of cost of investment in excess of equity in net assets		12,294	
Earnings and non-cash charges	**362,105**	376,241	335,871
Increase in current cost of inventory	**(64,851)**	(179,267)	(89,874)
LIFO charge	**22,506**	22,253	38,196
Decrease (increase) in other current assets	**(45,087)**	(38,215)	16,113
Increase in current liabilities	**87,154**	124,426	95,164
Cash provided from operations	**361,827**	305,438	395,470
Cash Provided (Used) Through Financing Activities:			
Cash dividends	**(87,438)**	(78,049)	(64,861)
Common stock issued	**6,141**	62,911	2,365
Preferred stock issued (reacquired)	**(61,338)**		50,000
Common stock received in exchange for assets		(95,882)	
Additions to long-term debt and obligations under capital leases	**178,871**	247,338	207,699
Reductions of long-term debt and obligations under capital leases	**(99,281)**	(114,153)	(26,986)
Net book value of fixed asset disposals	**59,054**	53,415	14,965
Capital expenditures	**(368,895)**	(464,380)	(324,280)
Increase in property held for resale	**(34,742)**	(39,744)	(26,309)
Increase in leased property under capital leases	**(25,800)**	(13,367)	(21,155)
Other changes, net	**8,016**	(10,928)	(13,203)
Cash used through financing activities	**(425,412)**	(452,839)	(201,765)
Increase (Decrease) in Cash and Temporary Cash Investments	**(63,585)**	(147,401)	193,705
Cash and Temporary Cash Investments:			
Beginning of Year	**178,156**	325,557	131,852
End of Year	**$ 114,571**	$ 178,156	$ 325,557

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All dollar amounts are in thousands except per share amounts.

Accounting Policies

The following is a summary of the significant accounting policies followed in preparing the financial statements which are not presented elsewhere in the notes.

Principles of Consolidation

The consolidated financial statements include the Company and all of its subsidiaries except a wholly-owned life insurance subsidiary which is included on the equity basis. Partially-owned affiliated companies are included in the financial statements on the equity basis. On January 25, 1983, Dillon Companies, Inc. (Dillon) became a wholly-owned subsidiary of the Company. Dillon is a multi-regional operator of supermarkets and convenience stores. Under the terms of the Agreement and Plan of Merger, the shareowners of Dillon received an aggregate 16.6 million shares of the Company's common stock. The merger is accounted for as a pooling of interests and the consolidated financial statements for prior years have been restated to reflect the combined companies. Separate results of Kroger and Dillon for periods prior to the merger were:

	1982	1981
Sales:		
Kroger	$11,901,892	$11,266,520
Dillon	2,859,872	2,691,035
Combined	$14,761,764	$13,957,555
Net earnings:		
Kroger	$ 143,758	$ 128,045
Dillon	48,366	47,825
Combined	$ 192,124	$ 175,870

Accumulated earnings at the beginning of 1981, for Kroger and Dillon were $590,429 and $25,882, respectively.

Inventories

Inventories are stated at the lower of cost (principally LIFO) or market. Approximately 75% of inventories for 1983 and 74% of inventories for 1982 were valued using the LIFO method. Cost for the balance of the inventories is determined by the FIFO method of inventory valuation.

Property Held for Resale

Property held for resale represents the cost of certain land and buildings held by the Company for sale during the next year.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization, which include the amortization of assets recorded under capital leases, are computed principally on the straight-line basis. Buildings and land improvements are depreciated based on lives varying from 10 to 40 years and equipment based on lives varying from three to fifteen years. Leasehold improvements are amortized over their useful lives which generally approximate twelve and one-half years.

Deferred Income Taxes and Investment Tax Credits

Deferred income taxes consist primarily of the amount of tax applicable to the excess of depreciation for tax purposes over depreciation used for financial reporting purposes.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise.

Other Current Liabilities

Other current liabilities as of December 31, 1983 and January 1, 1983 consists of:

	1983	1982
Salaries and wages	$ 162,816	$ 156,006
Taxes, other than income taxes	93,145	84,996
Other	162,639	138,387
	$ 418,600	$ 379,389

Debt Obligations

Long-term debt as of December 31, 1983 and January 1, 1983 consists of:

	1983	1982
Short-term borrowings to be refinanced		$ 75,755
14⅜% notes maturing in 1991	$ 50,000	50,000
12⅜% sinking fund debentures maturing in 2005, with annual payments of $2,500 required from 1988 through 2004	50,000	50,000
9⅞% notes maturing in 1983		32,224
9½% two-year extendible notes due in 1985	50,000	
9% sinking fund debentures maturing in 1995, with annual payments of $2,500 required from 1986 through 1995	23,649	26,325
8.7% sinking fund debentures maturing in 1998, with annual payments of $3,000 required from 1985 through 1998	40,514	41,145
8½% sinking fund debentures maturing in 2001, with annual payments of $2,500 required from 1986 through 2001	38,717	38,717
6% to 14¼% industrial revenue bonds, with annual payments due in varying amounts through 2022	330,447	260,185
5½% to 12⅞% mortgages with annual payments due in varying amounts through 2010	60,935	41,826
4½% to 15% notes, with annual payments due in varying amounts through 2004	27,208	30,504
Total debt	671,470	646,681
Less amount due within one year	(6,084)	(42,674)
Total long-term debt	$665,386	$604,007

The aggregate annual maturities and required payments of long-term debt for the five years subsequent to 1983 are:

1984	$ 6,084
1985	$58,422
1986	$18,575
1987	$31,468
1988	$34,738

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of $226,000 at December 31, 1983.

The Company periodically engages in short-term borrowing. Short-term borrowing for the three years ended December 31, 1983 was:

	1983	1982	1981
Weighted average for the year	$ 82,859	$ 40,384	$21,186
Highest level outstanding during the year	$156,963	$176,399	$74,611
Weighted average interest rate	9.03%	10.03%	15.70%

At December 31, 1983, the Company had available a revolving credit aggregating $250,000 against which it may obtain interim loans until March, 1989. The interest rate on the interim loans would vary between The First National Bank of Chicago corporate base rate, and this rate plus ¾% per annum. The interim loans may be converted into term loans payable over six years. No amounts have been borrowed under this agreement.

Interest costs capitalized in 1983, 1982 and 1981 amounted to $7,069, $8,584 and $5,342, respectively.

Leases

The Company operates principally in leased premises. Lease terms generally range from 10 to 25 years with options of renewal for additional periods. Options provide in some cases for reduced rentals and/or the right to purchase. Certain of the leases provide for contingent payments based upon a percent of sales.

Rent expense (under operating leases) consists of:

	1983	1982	1981
Minimum rentals, net of minor sublease rentals	$190,822	$173,034	$145,133
Contingent payments	17,572	19,080	18,646
Total	$208,394	$192,114	$163,779

Assets recorded under capital leases consist of:

	1983	1982
Distribution and manufacturing facilities	$115,944	$128,508
Store facilities	153,545	118,946
Less accumulated amortization	(78,498)	(71,751)
	$190,991	$175,703

Minimum annual rentals, net of subleased rentals under operating leases of $248,065, for the five years subsequent to 1983 and in the aggregate are:

	Capital Leases	Operating Leases
1984	$ 30,634	$ 212,667
1985	30,055	206,927
1986	29,190	199,987
1987	29,084	194,678
1988	28,850	192,062
1989 and thereafter	412,744	2,180,629
	560,557	$3,186,950
Less estimated executory costs included in capital leases	(35,148)	
Net minimum lease payments under capital leases	525,409	
Less amount representing interest	(306,946)	
Present value of net minimum lease payments under capital leases	$218,463	

Preferred Stock

The Company has authorized 5,000,000 shares of voting cumulative preferred stock, 4,500,000 of which are currently available for issuance. The stock has a par value of $100 and is issuable in series. None is outstanding at December 31, 1983.

A financing arrangement entered into in 1981 between the Company and an investor company, to operate a subsidiary, Kroco, Inc. and a partnership, BHK, Ltd., was terminated in 1983. The termination had no effect on the results of operations. In connection with this financing arrangement the Company issued 500,000 Series B 9% Cumulative Preferred Shares for $50,000. During 1983, the Company reacquired these shares for $61,338. The excess of cost over par value of the shares reacquired, $11,338, has been charged to accumulated earnings. A former Director of the Company was President and a Director of the investor company and another Director of the Company is also a Director of the investor company.

Common Stock

The Company has authorized 125,000,000 shares of $1 par common capital stock. For the three years ended December 31, 1983, changes in common stock were:

	Issued		In Treasury	
	Shares	Amount	Shares	Amount
January 3, 1981	28,142,872	$ 96,748	(370,401)	$ (5,672)
Pooling of interest—Dillon	14,431,452	137,818		
January 3, 1981, as restated	42,574,324	234,566	(370,401)	(5,672)
Exercise of stock options	123,374	1,544	(15,474)	(371)
Stock contributed to employee stock ownership plan and others	28,762	1,404	98,002	1,534
Tax benefit from exercise of non-qualified stock options		769		
Dividends reinvested under stock purchase plan	34,403	821		
Stock dividend (Dillon)	1,160,114	25,303		
January 2, 1982	43,920,977	264,407	(287,873)	(4,509)
Exercise of stock options	421,662	5,710	(31,202)	(995)
Stock issued in exchange for debt	205,966	5,939		
Stock issued for conversion of debentures	1,710,000	50,498		
Common stock received for assets			(2,398,702)	(95,882)
Stock contributed to employee stock ownership plan and others	10,856	675	81,953	2,637
Common stock retired (Dillon)	(94,697)	(2,335)		
Tax benefit from exercise of non-qualified stock options		1,498		
Dividends reinvested under stock purchase plan	23,267	764		
Stock dividend (Dillon)	936,634	23,472		
January 1, 1983	47,134,665	350,628	(2,635,824)	(98,749)

	Issued		In Treasury	
	Shares	Amount	Shares	Amount
January 1, 1983	47,134,665	350,628	(2,635,824)	(98,749)
Exercise of stock options	148,096	2,142	(11,627)	(454)
Stock issued in exchange for debt	76,630	2,792		
Tax benefit from exercise of non-qualified stock options		639		
Dividends reinvested under stock purchase plan	32,752	1,207		
December 31, 1983	47,392,143	$357,408	(2,647,451)	$(99,203)

Stock Option Plans

At December 31, 1983, options were outstanding to purchase 1,484,463 shares of common stock under the 1969, 1976, 1981 and 1982 (Dillon) Stock Option Plans (of which options on 762,074 shares were exercisable at that date) at prices ranging from $7.78 to $42.44 a share. In addition to cash payments the plans provide for the exercise of options by exchanging issued shares of stock of the Company. Each option outstanding was granted at an option price equal to the fair market value of the stock at the date of grant. No further options will be granted under the 1969 and 1982 Plans. Options may be granted under the 1976 and 1981 Plans until 1986 and 1991, respectively. At January 1, 1983, shares of common stock available for future options under the 1976 and 1981 Plans were 5,713 and 487,200 shares, respectively. At December 31, 1983, shares of common stock available for future options under the 1976 and 1981 Plans were 8,763 and 66,800 shares, respectively.

Changes in options outstanding under the Stock Option Plans of the Company were:

	Shares Subject To Option	Option Price Range Per Share
Outstanding, January 3, 1981	1,142,857	$ 7.78–$25.06
Granted	342,600	$20.31–$25.44
Exercised	(123,374)	$ 7.78–$21.22
Cancelled or expired	(25,941)	$ 7.91–$21.25
Outstanding, January 2, 1982	1,336,142	$ 7.78–$25.44
Granted	313,180	$24.93–$42.44
Exercised	(421,662)	$ 7.78–$26.81
Cancelled or expired	(12,451)	$ 7.78–$25.44
Outstanding, January 1, 1983	1,215,209	$ 7.78–$42.44
Granted	429,500	$36.06–$42.19
Exercised	(148,096)	$ 7.78–$36.38
Cancelled or expired	(12,150)	$19.75–$36.38
Outstanding, December 31, 1983	1,484,463	$ 7.78–$42.44

The Company has a Stock Appreciation Rights Plan available to certain officers. In general, the eligible optionees are permitted to surrender the related option and receive cash and shares of the Company's common stock having a value equal to the appreciation on the shares subject to the option. At December 31, 1983, no Stock Appreciation Rights were outstanding.

Taxes Based on Income

The provision for taxes based on income consists of:

	1983	1982	1981
Federal:			
Current	$10,604	$36,912	$ 53,368
Deferred	55,366	19,771	27,873
	65,970	56,683	81,241
State and local-current	18,920	18,547	18,061
Charges in lieu of federal income taxes		23,866	3,997
Total	$84,890	$99,096	$103,299

Investment and other tax credits reduced the tax provision by $25,163 in 1983, $31,883 in 1982 and $31,569 in 1981.

Charges in lieu of federal income taxes represent estimated amounts payable to an investor company under a tax allocation agreement. See Preferred Stock note.

A reconciliation of the statutory federal rate and the effective rate is as follows:

	1983	1982	1981
Statutory rate	46.0%	46.0%	46.0%
State income taxes, net of federal tax benefit	4.8	3.5	3.6
Investment and other tax credits	(11.9)	(11.0)	(11.3)
Write-off of cost of investment in excess of equity in net assets		2.0	
Capital gains		(4.5)	
Other, net	1.1	(2.0)	(1.5)
Effective rate	40.0%	34.0%	36.8%

Deferred income taxes included in the Consolidated Statement of Earnings and Accumulated Earnings represent the tax effect of amounts expensed (included in earnings) for tax purposes in excess of amounts used for financial reporting, and consist of:

	1983	1982	1981
Depreciation	$41,467	$31,890	$27,283
Other	13,899	(12,119)	590
	$55,366	$19,771	$27,873

Discontinued Operations

The amount of loss on discontinued operations in 1981 represents the excess of the actual loss over the amount estimated for operations discontinued during 1980.

Pension Plans

The Company has various noncontributory retirement plans for eligible employees. Certain plans, which were previously unfunded, are being funded over periods ranging from twenty-three to thirty-two years as of December 31, 1983. The Company also contributes to multi-employer plans jointly administered by management and union representatives. The total pension expense for 1983, 1982 and 1981 was $118,895, $117,698, and $112,704, respectively. The Company's policy is to fund pension expense as accrued. Past service costs of the Company's plans are amortized over periods ranging from thirty to forty years.

Accumulated plan benefits and plan net assets for the Company administered plans were:

	January 1, 1983	January 1, 1982
Actuarial present value of accumulated plan benefits:		
Vested	$228,182	$209,955
Nonvested	21,659	19,478
	$249,841	$229,433
Net assets available for benefits	$299,119	$255,917

The weighted average assumed rates of return used in determining the actuarial present value of accumulated plan benefits range from 7% to 9%.

Information on the actuarial present value of accumulated plan benefits and net assets available for benefits relating to the multi-employer plans is not available.

Earnings Per Share

Primary earnings per share equals net earnings divided by the weighted average number of common and dilutive common equivalent shares outstanding during the year. Common stock equivalents include shares issuable upon exercise of outstanding stock options and conversion of the Company's cumulative convertible preferred stock. Fully diluted earnings per share equals net earnings after the elimination of interest expense for 1982 and 1981, net of income tax effect, applicable to the Company's convertible debentures, divided by the weighted average number of common shares, dilutive common equivalent shares and shares issuable upon conversion of the Company's convertible debentures.

The average number of shares used to compute earnings per share was:

	Primary	Fully Diluted
1983	45,869	45,970
1982	46,246	47,951
1981	44,929	46,287

Store Closing Program

During 1982, the Company adopted a plan to close approximately 140 stores by the end of 1983, including all Market Basket stores located in southern California, as part of the Company's continuing review of underproductive assets. Net earnings for 1982 included a gain of $14,200 or $.30 per share resulting from the actual and anticipated proceeds from the disposal of these properties offset by the net book value of assets sold or written-off and the known and anticipated operating losses and closing costs associated with the properties included in the plan.

Proceeds received in connection with the disposal of certain of the Market Basket stores included 1,656,309 shares of the Company's outstanding common stock valued at $66,599. An additional 742,393 shares of common stock were purchased by the Company out of additional proceeds from the store closing program.

Quarterly Data (Unaudited)

Quarterly sales, merchandise costs (including warehousing and transportation), net earnings and fully diluted net earnings per share for 1983 and 1982 were:

	Sales In Millions		Merchandise Costs In Millions	
Quarter	1983	1982	1983	1982
1st	$ 3,386	$ 3,371	$ 2,585	$ 2,600
2nd	3,567	3,542	2,723	2,725
3rd	4,505	4,334	3,454	3,328
4th	3,778	3,515	2,895	2,690
Total	$15,236	$14,762	$11,657	$11,343

	Net Earnings In Millions		Net Earnings Per Share	
Quarter	1983	1982	1983	1982
1st	$ 21.5	$ 32.4	$ .46	$ .69
2nd	35.4	50.5	.76	1.06
3rd	28.5	49.2	.62	1.05
4th	41.7	60.0	.93	1.28
Total	$127.1	$192.1	$2.76	$4.05

Net earnings decreased $6,468 (14¢ per share) in the first quarter of 1983 due to fees and expenses associated with the merger with Dillon. Net earnings in the fourth quarter of 1983 included a gain of $4,965 (11¢ per share) resulting from an adjustment to conform certain accounting practices of various divisions of the Company. Net earnings in 1982 increased $6,500 in the third quarter (14¢ per share) and $7,100 in the fourth quarter (15¢ per share) due to the disposal of certain stores and other properties.

	Common Stock Price Range			
	1983		1982	
	High	Low	High	Low
1st Quarter	42⅞	34⅞	29½	23⅜
2nd Quarter	42⅞	35¾	32⅝	28½
3rd Quarter	42¾	34½	47¼	31⅛
4th Quarter	38⅝	33¾	47⅛	36⅛

Dividends Paid Per Share of Common Stock

Date Paid	1983	1982
March 1	$.47	$.43
June 1	.47	.43
September 1	.47	.43
December 1	.50	.47

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareowners and Board of Directors
The Kroger Co.

We have examined the consolidated balance sheets of The Kroger Co. and Consolidated Subsidiary Companies as of December 31, 1983 and January 1, 1983, and the related consolidated statements of earnings and accumulated earnings and changes in financial position for the years ended December 31, 1983, January 1, 1983 and January 2, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies as of December 31, 1983 and January 1, 1983, and the consolidated results of their operations and the changes in their financial position for the years ended December 31, 1983, January 1, 1983 and January 2, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Coopers & Lybrand
Cincinnati, Ohio
February 16, 1984

SUPPLEMENTAL INFLATION ADJUSTED FINANCIAL INFORMATION (Unaudited)

In an effort to produce financial information that discloses the effects of inflation, the Financial Accounting Standards Board (FASB) issued Statement No. 33, Financial Reporting and Changing Prices, which requires companies to explain the effect of inflationary factors on their operations by adjusting historical financial information using two different methods. This information includes disclosures about the effects of changes in both general inflation (constant dollars) and specific prices (current cost).

The constant dollar method measures the effect of the general rate of inflation on the Company's earnings by expressing certain historical cost amounts in units of the same purchasing power as measured by the Consumer Price Index for All Urban Consumers (CPI-U). This measure of general inflation encompasses a wide range of commodities and is not necessarily representative of the inflation effect upon our business. The current cost method attempts to reflect the changes in prices of the resources employed specifically in our operations. These methods involve the use of assumptions, approximations and estimates. The results should not be viewed as precise measurements of the effects of inflation.

Earnings derived under these methods include adjustments to merchandise costs and depreciation and amortization expense for these inflationary factors. The effects of inflation on merchandise costs have been recognized in the historical financial statements, to some extent, due to the use of the LIFO method of inventory valuation.

The accompanying statement of earnings and five-year comparison of selected financial data were prepared to reflect those inflationary factors due to increases in the historical costs of merchandise and depreciation and amortization and their related assets. Amounts prior to 1983 have been adjusted to average 1983 dollars by use of the CPI-U.

The restated net assets result in an indicated increase in shareowners' equity which was greater on a general inflation basis than on a specific price basis. The gain from decline in purchasing power of net amounts owed is primarily attributable to the debt which has been used to finance inventories and capital expenditures. During a period of inflation, holders of monetary assets suffer an unrealized loss of general purchasing power, while holders of monetary liabilities experience an unrealized gain.

Both the constant dollar method and the current cost method result in lower net income than reported in the primary financial statements. Taxation of earnings under present tax law reduces the amount of earnings available to support future business growth because these changing prices adjustments are not deductible for income tax purposes. The effects of the higher taxation of earnings are demonstrated in the effective tax rates shown on the supplementary income statement.

CONSOLIDATED STATEMENT OF EARNINGS FROM CONTINUING OPERATIONS ADJUSTED FOR CHANGING PRICES

For the Year Ended December 31, 1983 (52 Weeks) (In thousands of dollars)

	As Reported In The Primary Statements (Historical Costs)	Adjusted For General Inflation (Average 1983 Constant Dollars)	Adjusted For Changes In Specific Prices (1983 Current Costs)
Sales	$15,236,000	$15,236,000	$15,236,000
Costs and expenses:			
Merchandise costs, including warehousing and transportation	11,657,000	11,671,000	11,661,000
Operating, general and administrative	2,907,000	2,907,000	2,907,000
Rent	208,000	208,000	208,000
Depreciation and amortization	180,000	219,000	228,000
Dividend and interest income	(18,000)	(18,000)	(18,000)
Interest expense	90,000	90,000	90,000
Total	15,024,000	15,077,000	15,076,000
Earnings from continuing operations before taxes based on income	212,000	159,000	160,000
Taxes based on income	85,000	85,000	85,000
Earnings from continuing operations	$ 127,000	$ 74,000	$ 75,000
Effective tax rate—taxes based on income	40.0%	53.5%	53.1%
Gain from decline in purchasing power of net amounts owed		$ 74,000	$ 74,000
Increase in specific prices of inventories and property, plant and equipment			$ 64,000
Less effect of increase in general prices			131,000
Excess of increase in general prices over increase in specific prices			$ (67,000)

At December 31, 1983 specific prices of inventories totaled $1,341,000 and specific prices of property, plant and equipment, net of accumulated depreciation, totaled $2,258,000.

The adjustment to merchandise costs, including warehousing and transportation, in the supplemental income statements is less than one percent, which reflects the Company's use of the LIFO method of accounting for approximately 75% of its inventories. The difference results primarily from restating the remaining inventories to a current cost equivalent.

FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In thousands of average 1983 dollars, except per share amounts)

	1983	1982	1981	1980(a)	1979
Sales	$15,236,000	15,237,000	15,290,000	15,254,000	15,013,000
Constant Dollar Data:					
Earnings from continuing operations	$ 74,000	145,000	130,000	69,000	67,000
Primary earnings per share from continuing operations	$ 1.61	3.13	2.90	1.57	1.52
Net assets at year-end	$ 1,974,000	1,984,000	1,852,000	1,742,000	1,628,000
Current Cost Data:					
Earnings from continuing operations	$ 75,000	140,000	124,000	68,000	59,000
Primary earnings per share from continuing operations	$ 1.64	3.03	2.76	1.54	1.33
Net assets at year-end	$ 1,726,000	1,831,000	1,967,000	1,861,000	1,711,000
Excess of increase in general prices over increase or decrease in specific prices	$ (67,000)	(156,000)	(109,000)	15,000	(37,000)
General Information:					
Gain from decline in purchasing power of net amounts owed	$ 74,000	63,000	132,000	172,000	183,000
Dividends per share	$ 1.91	1.82	1.72	1.68	1.73
Market price per share at year-end	$ 36⅜	39⅞	27½	25	24⅞
Average consumer price index	298.4	289.1	272.4	246.8	217.4

(a) Fifty-three (53) weeks

NOTES TO SUPPLEMENTARY DATA ON CHANGING PRICES

Accounting Policies

The supplementary data on changing prices is based upon the historical financial information as reported in the primary financial statements adjusted for (1) general inflationary factors relating to property, plant and equipment and inventories and (2) the changes in specific prices relating to these items.

Depreciation expense was calculated using the same methods and rates of depreciation as used in the historical financial statements.

Income tax expense has not been modified for any timing differences, allocations or adjustments that may result from applying the different methods in preparing the supplementary data.

No attempt has been made to calculate the benefit derived from additional realization of selling price increases necessitated by a higher level of cost of operations resulting from the application of the constant dollar or current cost adjustments to the original historical cost of property, plant and equipment and inventories.

Constant Dollars

The supplementary data on a constant dollar basis is expressed in average for the year dollars and reflects adjustments that have occurred in the purchasing power of the dollar as measured by the CPI-U published by the Bureau of Labor Statistics. These amounts do not purport to represent appraised values or any other measure of current value.

Current Cost

The current cost of inventories and merchandise costs represents the cost of purchasing the goods at year-end prices for inventory and prices in effect at date of sale for merchandise costs. They are estimated based upon the latest prices and information of merchandise costs available as of December 31, 1983.

The current cost of property, plant and equipment and the related depreciation expense are estimates of what the Company's existing assets would cost at the respective balance sheet dates. The amounts for prior years have been adjusted to average 1983 dollars based on the CPI-U. Several methods, including indexation, direct pricing and application of square footage building and equipment costs based upon current merchandising and facility concepts, were used in estimating these amounts. These values represent the estimated current costs of existing assets and do not consider technological improvements and efficiencies associated with the normal replacement of productive capacity.

TEN YEAR SUMMARY

	1983	1982	1981
OPERATIONS (In thousands of dollars, except per share amounts)			
Sales	**$15,236,013**	14,761,764	13,957,555
Costs and expenses	**$15,024,044**	14,470,544	13,676,947
Earnings from continuing operations before taxes based on income	**$ 211,969**	291,220	280,608
Taxes based on income	**$ 84,890**	99,096	103,299
Earnings from continuing operations	**$ 127,079**	192,124	177,309
Discontinued operations	$		(1,439)
Net earnings	**$ 127,079**	192,124	175,870
Dividends on common stock	**$ 85,188**	73,549	63,898
Per share			
Earnings from continuing operations	**$ 2.76**	4.05	3.87
Discontinued operations	$		(.03)
Net earnings	**$ 2.76**	4.05	3.84
Dividends on common stock	**$ 1.91**	1.76	1.57
BALANCE SHEET STATISTICS (In thousands of dollars, except per share amounts)			
Inventories	**$ 1,151,131**	1,108,786	951,773
Working capital	**$ 339,701**	368,266	405,065
Property, plant and equipment, net	**$ 1,769,339**	1,610,693	1,339,626
Total assets	**$ 3,502,278**	3,293,661	2,931,837
Long-term debt	**$ 665,386**	604,007	477,501
Obligations under capital leases	**$ 212,406**	194,195	187,516
Shareowners' equity	**$ 1,072,852**	1,086,345	1,000,049
Per common share	**$ 23.98**	23.29	21.33
OTHER STATISTICS (In thousands of dollars, except stock prices)			
Cash provided from operations	**$ 361,827**	305,438	395,470
Capital expenditures	**$ 368,895**	464,380	324,280
Rent	**$ 208,394**	192,114	163,779
Interest expense	**$ 90,297**	69,819	55,583
Common stock price range	**$ 33¾-42⅞**	23⅜-47¼	19¼-27⅞
RETAIL FACILITIES (Areas in thousands of square feet)			
Stores—End of Year:			
Food Stores	**1,428**	1,418	1,475
Drug Stores	**606**	563	507
Convenience Stores	**352**	352	349
Total Square Feet—End of Year:			
Food Stores	**46,077**	44,088	43,615
Drug Stores	**6,832**	6,261	5,715
Convenience Stores	**809**	807	800

(a) In 1979, the Company changed from the First-In, First-Out (FIFO) method of valuing certain of its inventories to the Last-In, First-Out (LIFO) method
(b) 1976 and 1980 were fifty-three-week years.

1980(b)	1979(a)	1978	1977	1976(b)	1975	1974
12,616,082	10,937,415	9,467,874	8,117,709	7,396,095	6,486,531	5,766,924
12,400,567	10,746,407	9,259,408	7,960,396	7,272,545	6,391,639	5,658,870
215,515	191,008	208,466	157,313	123,550	94,892	108,054
81,627	77,090	93,533	69,457	53,157	41,135	48,837
133,888	113,918	114,933	87,856	70,393	53,757	59,217
(8,400)						
125,488	113,918	114,933	87,856	70,393	53,757	59,217
56,619	50,323	37,391	31,484	27,669	25,846	23,975
3.03	2.59	2.63	2.03	1.65	1.26	1.40
(.19)						
2.84	2.59	2.63	2.03	1.65	1.26	1.40
1.40	1.26	.89	.76	.69	.68	.67
900,095	896,147	796,183	703,358	628,866	560,586	543,391
246,011	271,211	320,461	311,844	313,053	230,772	173,279
1,138,287	962,018	814,377	728,186	685,704	655,469	625,815
2,465,459	2,218,051	2,009,181	1,831,286	1,701,919	1,528,889	1,466,440
311,036	269,026	239,172	247,060	274,310	229,194	182,255
173,268	169,561	165,856	153,958	147,883	130,111	116,348
835,066	762,194	692,894	611,169	550,937	505,837	488,190
18.84	17.26	15.82	14.12	12.88	11.85	11.54
347,010	206,447	215,038	165,056	138,801	97,862	171,751
298,766	242,324	168,543	127,944	107,757	92,181	135,588
147,877	127,269	112,138	98,455	90,237	80,074	71,313
44,662	36,849	35,920	36,912	33,425	30,511	28,138
14-23¾	17½-27	12¾-18½	11⅝-14⅜	8⅞-12⅝	7⅞-12⅛	7⅛-12½
1,459	1,438	1,406	1,384	1,362	1,400	1,413
514	504	487	528	558	551	522
333	326	290	189	186	187	185
40,846	38,341	36,113	33,729	31,556	30,707	29,503
5,841	5,657	5,591	6,108	6,399	6,234	5,633
732	718	638	400	372	375	370

BOARD OF DIRECTORS

William D. Atteberry
64, is Chairman of the Board of Eagle-Picher Industries, Inc. He is a member of the Audit, Executive and Pension Plan Committees. Director since 1980.

Philip E. Beekman
52, is President of Joseph E. Seagram & Sons, Inc., and The Seagram Company Ltd. He is a member of the Compensation and Corporate Responsibility Committees. Director since 1978.

Raymond B. Carey, Jr.
57, is Chairman of the Board and President of American District Telegraph Company. He is a member of the Compensation and Nominating Committees. Director since 1977.

John A. Cornett, Jr.
59, is Vice Chairman of The Kroger Co. He is a member of the Pension Plan Committee. Director since 1982.

Ray E. Dillon, Jr.
59, Chairman of the Board of Dillon Companies, Inc. He is a member of the Financial Policy Committee. Director since 1983.

Richard W. Dillon
56, is Vice Chairman of the Board of Dillon Companies, Inc. He is a member of the Pension Plan Committee. Director since 1983.

Lyle Everingham
57, is Chairman of the Board and Chief Executive Officer of The Kroger Co. He is chairman of the Executive Committee and a member of the Nominating Committee. Director since 1970.

James P. Herring
69, is the retired former Chairman of the Board of The Kroger Co. He is a member of the Compensation, Executive and Nominating Committees.
Director since 1968.

Jackson C. Hinds
62, is Chairman of the Board and Chief Executive Officer of Entex, Inc. He is chairman of the Pension Plan Committee and a member of the Executive and Financial Policy Committees. Director since 1975.

William G. Kagler
51, is President of The Kroger Co. He is a member of the Corporate Responsibility and Executive Committees. Director since 1982.

Dr. Patricia Shontz Longe
50, is an Economist and Professor of Business Administration at the University of Michigan, and senior partner of Imeco-Longe. She is chairman of the Nominating Committee and a member of the Audit Committee. Director since 1977.

T. Ballard Morton, Jr.
51, is Executive in Residence of the School of Business of the University of Louisville. He is chairman of the Corporate Responsibility Committee and a member of the Audit and Executive Committees. Director since 1968.

Thomas H. O'Leary
50, is Vice Chairman of Burlington Northern, Inc. He is chairman of the Audit Committee and a member of the Financial Policy Committee. Director since 1977.

John D. Ong
50, is Chairman, President and Chief Executive Officer of The B. F. Goodrich Company. He is chairman of the Financial Policy Committee and a member of the Nominating Committee. Director since 1975.

Joseph A. Pichler
44, is President of Dillon Companies, Inc. He is a member of the Corporate Responsibility Committee. Director since 1983.

Dr. W. George Pinnell
61, is Executive Vice President of Indiana University. He is chairman of the Compensation Committee and a member of the Financial Policy Committee. Director since 1966.

Otis M. Smith
62, is Vice President of General Motors Corp. He is a member of the Audit and Corporate Responsibility Committees. Director since 1983.

Russell L. Wagner
67, is the retired former Chairman of the Board and Chief Executive Officer of NLT Corporation. He is a member of the Audit and Compensation Committees. Director since 1980.

CORPORATE OFFICERS

Raymond F. Abaray
Vice President

David A. Burt
Group Vice President

John A. Cornett, Jr.
Vice Chairman

Ray E. Dillon, Jr.
Chairman of the Board of Dillon Companies, Inc.

Richard W. Dillon
Vice Chairman of the Board of Dillon Companies, Inc.

Lyle Everingham
Chairman of the Board and Chief Executive Officer

Jack G. Hudson
Vice President and Controller

Arthur Juergens
Group Vice President

William G. Kagler
President

Lorrence T. Kellar
Vice President and Treasurer

Richard M. Koster
Senior Vice President

George A. Leonard
Vice President, Secretary and General Counsel

Joseph A. Pichler
President, Dillon Companies, Inc.

Robert E. Saffron
Vice President

William J. Sinkula
Group Vice President

John L. Strubbe
Group Vice President

Charles L. Thomas
Senior Vice President

Gerald L. Wolken
Vice President, President, SupeRx Drug Stores

FORM 10-K

A copy of the Company's 1983 report to the Securities and Exchange Commission, Form 10-K, is available to shareowners on request by writing: Lorrence T. Kellar, Vice President and Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201.

ANNUAL MEETING

The annual meeting of shareowners will be held at Music Hall, 1243 Elm Street, Cincinnati, Ohio, on May 18, 1984, at 10 a.m.

TRANSFER AGENT AND REGISTRAR

The First National Bank of Cincinnati
First National Bank Center
Fifth and Walnut Streets
Cincinnati, Ohio 45201
Telephone: 513-632-4648

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Coopers & Lybrand
1500 Atrium One
201 East Fourth Street
Cincinnati, Ohio 45202

SHAREOWNERS

At the end of 1983, a total of 47,189 shareowners of record owned 47,392,143 shares of The Kroger Co. common stock.

COMMON STOCK

The main trading market for The Kroger Co.'s common stock is the New York Stock Exchange, where it is listed under the symbol KR.

SHAREOWNER INQUIRIES

If shareowners have any questions regarding their Kroger stock account or if there are any problems such as missing dividend checks or changes of address, please direct inquiries to:

The First National Bank of Cincinnati
Stock Transfer Department
First National Bank Center
Fifth and Walnut Streets
Cincinnati, Ohio 45201
Telephone: 513-632-4107

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1014 VINE STREET
CINCINNATI, OHIO 45201
(513) 762-4000